

A Proposed Outline for National Low-Rent Housing Legislation

Submitted by the
**Canadian Federation of Mayors
and Municipalities**

to the
Federal Government

at the request of
C.D. Howe, Minister of Reconstruction

1947

A PROPOSED OUTLINE

FOR

NATIONAL LOW-RENT HOUSING LEGISLATION

SUBMITTED BY

THE CANADIAN FEDERATION OF MAYORS
AND MUNICIPALITIES

TO THE

FEDERAL GOVERNMENT

At the request of the Rt. Hon. C. D. HOWE,
Minister of Reconstruction

INTRODUCTION

On July 16, 1947, a delegation appointed by the Executive Committee of the Canadian Federation of Mayors and Municipalities, headed by Mayor Lucien Borne, Quebec, First Vice-President of the Federation, met with the Right Hon. C.D. Howe, Minister of Reconstruction, in Ottawa. In accordance with the instructions of the Tenth Annual Conference of the Federation, the delegation urged upon the Federal Government, through Mr. Howe, the vital necessity for the immediate drafting of a nation-wide program for the construction of subsidized low-cost, low-rental housing, and the responsibility of the Federal Government to prepare such a plan, draft the necessary legislation, and proceed to prompt implementation thereof.

Following a lengthy discussion, the Minister invited the Federation to prepare and submit to his Government for consideration an outline for such a program, which in their opinion would best meet the needs of the situation. The Committee agreed to do this, and appointed Mr. J.O. Asselin, Chairman of the Executive Committee of the City of Montreal, to direct the project. The following pages contain the suggested outline, prepared under the direction of Mr. Asselin by Mr. George S. Mooney, Consultant to the Federation; which is hereby submitted for consideration.

CANADIAN FEDERATION OF MAYORS
AND MUNICIPALITIES

Montreal, September 17, 1947

A PROPOSED OUTLINE FOR NATIONAL LOW-RENT HOUSING LEGISLATION, SUBMITTED BY THE CANADIAN FEDERATION OF MAYORS AND MUNICIPALITIES TO THE FEDERAL GOVERNMENT, AT THE REQUEST OF THE RIGHT HON. C.D. HOWE, MINISTER OF RECONSTRUCTION.

I. CAPITAL COSTS

- a) For privately sponsored Limited Divident projects:

THE FEDERAL GOVERNMENT TO LOAN 90%
OF THE FULL CONSTRUCTION COSTS

- b) For municipal, provincial, or federal sponsored projects:

THE FEDERAL GOVERNMENT TO FINANCE
FULL CONSTRUCTION COSTS

Notes on the foregoing:

1. With respect to the proposal that the Federal Government finance the full construction costs of publicly sponsored low-rent housing projects reference is made to the Curtis Report (p. 194) where it is suggested that this could be done on the basis of a 90% loan on the completed project. To quote the recommendation: "A workable principle would be to value the improved property (including land and the finished buildings) at 10% more than the construction costs, in recognition of the enhanced value of the property as a going concern. Land to be furnished by the municipality, and, by this device, the municipal government would be reimbursed for the cost of the land". As at the present time, in some cases this cost may be

purely nominal. In other cases such land would have to be acquired at current market costs.

- II. Under Part II of the National Housing Act (1938) the Federal Government undertook to loan to local Housing Authorities 90% of the costs of construction (80% to Limited Dividend Corporations). The costs of construction were defined as being all-inclusive capital cost and meant:
 - a) Actual expenditures for building;
 - b) Cost of land, including site developments;
 - c) Architectural, legal, and other expenses necessary to complete the project.
- III. In 1938, the proposition that municipalities bear 10% of the costs of construction (as above defined) was based on the fact that most municipalities throughout Canada, certainly all of the larger ones, had large areas of serviced land which, because of tax default during the depression years, had reverted to municipal ownership. To put this vacant and serviced land into use for low-rental housing estates would not, at that time, have involved local governments in any further outlay of funds. In effect, it meant turning a frozen asset into an active one. The value of such serviced land, it was estimated, would represent and account for the municipal

10% contribution to the inclusive capital construction costs.

- iv. In 1947 this premise is no longer valid. The large blocks of distressed land which were municipally-owned in 1938 have, for the most part, been put into land use during the intervening years. A substantial acreage was made available during the war - much of it at no cost to the Federal Government - for the erection of defence industries or for the construction of wartime housing. Property so utilized is continuing in use, although much of it is non-revenue producing to the municipalities. Defence industries have been converted to other purposes. Wartime housing, conceived as a temporary measure, has been reconditioned for permanent occupation. Most of the remaining municipally-owned land, held in large blocks, has been sold to private industry or to private housing entrepreneurs. Some of it has been utilized or ear-marked for civic development purposes. (Parks, playgrounds, municipal buildings, etc.) There are few municipalities which now own sufficiently large tracts of vacant land which would be suitable for large-scale low-rent housing estates.
- v. To expect the municipalities to contribute towards the capital costs of construction would be to impose on them a burden which their limited and strained financial resources makes them ill-equipped to assume. Moreover, the

provision of adequate housing for all Canadian families is, or should be, a national social minimum and, as such, it should be a national financial responsibility. This is not to argue that the municipalities have no responsibility. They have. But it is neither in their interest, nor in the interest of the nation at large, to add to the already heavy municipal debt structure a further load for housing indebtedness, the more so inasmuch as, over the years, the provision of low-rent housing is likely to grow to large proportions.

- vi. Finally, the chief aim in low-rent housing should be to cut costs to the minimum without sacrificing the standards of sound construction nor jeopardizing the amenities of good living. In this regard the costs of money and its carrying charges are an important and controllable factor. Ottawa can borrow more cheaply than the municipalities and some municipalities more cheaply than others. In order to equitize the financing of publicly sponsored low-rent housing the Federal Government is the logical single agency for providing and underwriting the inclusive costs of construction.
- vii. In this connection a possible source of capital funds would be for the Federal Government to utilize the Annual Savings Bond Campaign and offer it to the Canadian

people as an Annual Housing Bond issue guaranteed by the Federal Government. A public issue of this sort would prove popular and the flow of funds ample for the purpose.

2. INTEREST AND REPAYMENT CHARGES

- a) In view of the social nature of low-rent housing it should be possible for projects falling within this category to be financed at no more than $2\frac{3}{4}\%$, plus an additional $1/8\%$ to cover administrative costs.
- b) The amortization period should be up to 35 years.

Notes on the foregoing:

- 1. Under Part II of the National Housing Act (1938) loans to Limited Dividend Housing Corporations were to have borne interest at the rate of $1\frac{3}{4}\%$ per annum, payable half-yearly; and loans to other Local Housing Authorities were to have been at the rate of 2% per annum, payable half-yearly. (As the repayments to the Federal Government were to have been blended payments of principal and interest aimed at amortizing the loan in approximately 35 years, the total yearly payment for a Limited Dividend Corporation would have been $3\frac{3}{4}\%$ of the principal amount of the loan, payable $1-7/8\%$ half-yearly; and the total yearly payment for other Local Housing Authorities would have worked out at 4% of the principal amount of the loan, payable 2% half-yearly).

- ii. In recommending an amortization period "up to 35 years" we have in mind that it might be more appropriate (depending largely on the source of capital funds) if the bonds were to mature in a shorter period, say 25 years with an optional renewable privilege for a further period, 10 years or more, at the end of that time. Such a procedure would influence the interest rate and would not necessarily require that sinking funds be set aside to completely liquidate the full capital outlay within the 25 year period. Assuming that 75% of the capital costs could be met through sinking funds at the expiration of a 25 year period, the balance of the financing required (25%) over the remaining 10 year or more period would be readily renewable.

3. HOUSING LOANS TO WHOM?

To facilitate the construction of low-rental housing projects in Canada, the Federal Government should provide loans on the basis and in the manner suggested to three broad groups of agencies:

a) LIMITED DIVIDEND HOUSING CORPORATIONS

A Limited Dividend Housing Corporation means a corporation (or an individual or a cooperative society) organized to construct, hold and manage houses built as a low-rental housing project, able to finance a

minimum of 10% of the inclusive construction costs, and which undertakes to limit the dividends payable on that portion of the shares privately-owned to a maximum interest rate of 4% annually.

b) LOCAL HOUSING AUTHORITY

A Local Housing Authority means any municipality or public body created by a municipality having authority to construct, hold and manage houses built as a low-rental housing project.

c) PROVINCIAL HOUSING AUTHORITY

A Provincial Housing Authority means any Provincial Body created by a Province having authority to construct, hold and manage houses built as a low-rental housing project.

Notes on the foregoing:

- i. There is nothing substantially new in the foregoing definition of agencies to whom federal loans for low-rent housing projects should be made available. Under Part II of the National Housing Act (1938), loans to both Limited Dividend Housing Corporations (80%) and Local Housing Authorities (90%) were contemplated. And under the existing Federal Housing Legislation 90% loans were made available (50 years at 3%) to Housing Enterprises Ltd., which, in effect, was a Limited Dividend

Housing Corporation created by several of the larger insurance companies whose 10% investment in the undertaking was limited to a 5% dividend return backed by a government guarantee that, in any case, such investment would earn a minimum of $2\frac{1}{2}\%$.

- ii. The new feature is the suggestion that the meaning of a Limited Dividend Housing Corporation be broadened to include (a) an individual housing entrepreneur; (b) a co-operative housing society. We make this recommendation for two reasons: (a) in order to set the speculative builder to work to provide small houses for low-rental purposes; and (b) to encourage families of low income but of sound integrity to band together for the purpose of providing their own housing need. (In the United Kingdom pre-war housing legislation provided subsidies to private builders who created houses of the same standards as those erected by public authorities and who rented to low-income families and observed the same conditions as those laid down for other public housing projects. Under this arrangement private enterprise built 475,000 low-rent subsidized dwellings between 1921 and 1939; approximately 30% of the total constructed).

We also recommend that in any contemplated legislation provision be made for dealing with Provincial Housing

Authorities as well as Local Housing Authorities. This, inasmuch as we envisage that low-rent housing projects might be proceeded with in some of the provinces by provincial rather than local housing authorities. (For instance, in Nova Scotia, the Nova Scotia Housing Commission.)

- iii. We also recommend that the maximum interest rate allowable to the investments of a Limited Dividend Housing Corporation be fixed at 4%.

4. ANNUAL RENTAL SUBSIDY

In order to maintain the character and purpose of low-rent housing projects it will be essential to provide a rental subsidy (based on the family income and size of family) for most tenant households occupying the property.

THIS SUBSIDY SHOULD BE WHOLLY PROVIDED BY THE FEDERAL GOVERNMENT FOR WHICH PURPOSE THE FEDERAL GOVERNMENT SHOULD FORTHWITH ESTABLISH A NATIONAL RENT REDUCTION FUND

Notes on the foregoing:

- i. Appropriations for the National Rent Reduction Fund would be voted annually by the Parliament of Canada. The total amount so voted would be met from current national revenue for which tax provision would have to be made.
- ii. Any properly constituted housing agency as heretofore defined (See Section 3 of this memorandum) and which constructs and manages low-rental housing projects would, under the terms of the proposed new Housing Legislation, contract with the Federal Government to obtain annual payments from the Rent Reduction Fund in such an amount as would offset the deficit accruing consequent upon the actual costs of amortization and management less the amount of rental income from the tenant occupants of the property.

- iii. The inescapable fact about low-rent housing is that no matter what economies may be effected or how low-cost the project may be, there will be some families who are unable to afford the economic rent which such accommodation requires in order to support its capital costs and carrying charges.
- iv. An annual rental subsidy (of one form or another) has come to be almost universally recognized as the best and most practicable technique for overcoming the problem. It is the basic principle now incorporated in the low-rent housing legislation of the United Kingdom, the United States, Australia, New Zealand, South Africa and Sweden.
- v. "A rental subsidy has the merit of being flexible and subject to variation if circumstances or experience demand. It is straightforward in effect and understandable as a rent-reduction fund applied to a clear-cut social welfare purpose." (Curtis Report, p. 194).
- vi. While we recommend that the subsidy be wholly provided by the Federal Government we do not exclude the possibility of provincial contributors. We do feel, however, that inasmuch as there would be an inevitable delay before all the provinces would agree to such an undertaking

and, in view of the urgency of need for low-rent housing, that the Federal Government, in the first instance, should undertake to provide the entire rental subsidy costs.

- vii. The principle of rental subsidy was written into Part II of the National Housing Act. Under its terms it was provided that where, for any reason, the economic rent charges were such as to be burdensome for families of low income, the Minister of Finance was authorized to approve an agreement between the municipality or the provincial government and the Local Housing Authority whereby the municipality or the Provincial Government would undertake to make periodic additional contributions to a rent reduction fund for the purpose of allowing reductions in rentals.
- viii. The exact amount of subsidy will vary from year to year. It will depend on many things. First, to the limits set for the construction costs. Second, to the extent which these costs cannot be met by a full economic rent. Third, to the actual family income of the tenant households in each separate project. Fourth, to the size of their families. Fifth, to the costs of maintenance and management. Sixth, to local tax costs. All of these are variables so that the rental subsidies payable in any one

year will fluctuate according to the prevailing circumstances affecting the cost and income factors in each separate housing project. The Curtis Report envisaged that the minimum annual subsidy would be of the order of 3 to $4\frac{1}{2}\%$ of the total cost.

- ix. It is assumed, of course, since low-rent housing would be the subject of subsidy, that projects constructed would be confined to moderate standards, erected at minimum cost and with every economy, and that an upper income limit and a clear definition of the groups who are to be accorded accommodation will be written into the enabling legislation.

5. LOCAL TAXATION

"One of the most critical points, which past experience has shown will determine the response of cities and towns to low-rent housing legislation is the basis on which the project will be related to the municipal tax structure."

(Curtis Report, p. 196)

As an approach to this aspect of the annual maintenance costs of low-rental housing projects the following formula is proposed:

FOR PURPOSES OF LOCAL TAXATION OF LOW-RENT HOUSING PROJECTS THE AMOUNT OF SUCH TAXATION TO BE COMPUTED BY CAPITALIZING AT 5% THE MAXIMUM RENT WHICH THE AGGREGATE OF TENANT FAMILIES OCCUPYING ANY PROJECT WOULD NORMALLY PAY FOR NON-SUBSIDIZED HOUSING ACCOMMODATION.

OR, IN ~~VIEW~~ OF THE FOREGOING, THAT THE MUNICIPALITIES
CONTRIBUTION TO THE FINANCIAL COSTS OF LOCAL LOW-RENT
HOUSING BE IN THE FORM OF A DIRECT CONTRIBUTION TO THE
PROPOSED NATIONAL RENT REDUCTION FUND IN SOME EQUIVALENT
RATIO TO WHAT WOULD HAVE BEEN THE TAX CONCESSION IN
TERMS OF THE FOREGOING FORMULA.

OR, IN THOSE INSTANCES ~~WHERE~~ A MUNICIPALITY IS PERMITTED
UNDER PROVINCIAL STATUTE TO GRANT TAX CONCESSIONS OF
ONE FORM OR ANOTHER, THAT THE FEDERAL GOVERNMENT ACCEPT
SUCH CONCESSIONS AS THE BASIS OF THE LOCAL FINANCIAL
CONTRIBUTION AND THAT ~~THEY~~ BE PROPORTIONATELY EQUIVALENT
TO WHAT WOULD HAVE BEEN THE CONCESSION UNDER THE FORMULA
ABOVE REFERRED TO.

EXAMPLE:

It is generally agreed that the maximum rent which a low-income family can afford to pay should not exceed 20% of the total family income. Presuming Family "A" is in receipt of a total annual income of \$1000, then 20% of that would be \$200.

This amount (\$200), therefore, represents the annual maximum rent which this family could be expected to pay for its shelter needs.

If this amount is capitalized at 5% (an average annual return on residential property) the value of the property occupied by Family "A" for local assessment purposes would be \$4000, although, in fact, the actual costs of the house might be substantially higher.

Similarly, the aggregate of the maximum rent-paying capacities of all the families occupying houses in the property, capitalized at 5%, would be the basis for the annual assessment of the property for local taxation purposes.

Where such revenues are shared by municipal corporations and school commissions, the portion receivable by each would be pro-rata to the existing municipal and school rates. (In some provinces this may require an amendment to existing legislation.)

Notes on the foregoing:

- i. The proposed formula provides an equitable and sound basis for local taxation of low-rental housing projects. It recognizes a ceiling beyond which low-income families cannot afford to pay an economic rent for minimum standard housing. Most of these families are now occupying obsolescent or inferior housing which, in theory if not always in fact, is assessed at values which bear a relationship to the rental income which they produce. If the rental income on an existing property aggregates \$200 per annum it is not likely that such a property would be valued on the municipal assessment rolls in excess of \$4000.
- ii. On this basis, no loss would be sustained to civic revenue, nor would existing property owners be prejudiced against, were modern low-rental housing projects to be taxed at the average prevailing assessed valuation for residential non-subsidized housing of the sort which re-housed low-income families hitherto have occupied.
- iii. On the other hand, no additional tax burden would be placed on a low-rental housing project simply by virtue of its higher costs due to its more modern and more amenable facilities and its erection at a time of high construction costs. The incidence of taxation under

this formula is thereby related not to the capital costs of construction but to the social welfare purposes of the undertaking limited by a frank recognition of the normal tax-paying ability of those whom the undertaking serves.

- iv. Under Part II of the National Housing Act (1938) municipalities were required not to levy municipal taxes on low-rent housing built under the Act in excess of 1% of the cost of construction. The municipality had also to agree not to levy any taxes on the income of the local Housing Authority. Moreover, in the case of a Limited Dividend Housing Authority, an agreement was required from the municipality, that if at any time before the housing loan was paid off, its net earnings were insufficient to pay the full amount of the payments due the Federal Government, the Municipality was to forego all taxes or such lesser amount as would enable the Limited Dividend Corporation to make the payments in full.
- v. It was this feature of the 1938 Act which, perhaps more than any other, proved the stumbling-block in municipal councils throughout the country. Not that the municipalities are opposed to subsidized low-rental housing,

or that they are unwilling to cooperate in plans aimed at ameliorating existing conditions. Simply that they are opposed to the principle of tax exemption of the sort contemplated.

- vi. Various expedients in the form of tax remission or exemption have from time to time been put forward as a device for securing a financial contribution from municipalities as their share of the cost of providing and maintaining low-rent housing. On the face of it this looks like a reasonable proposition. On examination, it is not.
- vii. Tax exemption of one form or another (Crown property, both Federal and Provincial, Church and School property, etc.) is already a heavy burden on municipal tax-payers. This would not be too serious could the municipalities look elsewhere to augment their civic revenues or, if by exemption, further municipal costs on account of such properties (both direct and indirect) were not involved. Unfortunately, this is not the case.
- viii. Real property, with the notable exception of the City of Montreal, is almost the sole source of revenue for local governments and every additional piece of property put into land use adds its cumulative pressure in requiring

additional expenditures of civic funds for a variety of purposes, some directly linked to the property, others only indirectly. (Street widening, street extension, street lighting, larger sewers, parks, playgrounds, police and fire stations, etc. etc.)

- ix. Moreover, the ever widening field of social welfare costs are imposing an added burden on the limited financial resources of municipal governments, which can only be met by passing the cost on to local property owners. The municipalities have strenuously opposed this tendency on the part of senior governments to pass on a portion of social service costs back to the municipalities and some provincial governments, recognizing the inability of local governments to assume such costs, have, by grants-in-aid and other forms of assistance, relieved them of the responsibility. Low-rent housing, desirable though it is, is not a burden to be added to the already narrow and restricted revenue resources of local governments.
- x. "It is better to recognize that subsidized housing requires revenue to be collected from some part of the community, nationally speaking, for redistribution in the specific form of low-rental housing, and to place

this levy where it can best and most equitably be collected." (i.e., the Federal Government).

(Curtis Report, p. 196)

- xi. Further reduction of the taxing power or fresh inroads into the limited revenue resources of local governments for other than purely municipal costs of administration are a step backward, not forward, in rationalizing the municipal finance structure. Tax exemption of low-rent housing is of these proportions. Its inclusion in any federally-sponsored low-rent housing legislation would not be received with endorsement by responsible local government administrators throughout the country.
- xii. Further, (to again quote the Curtis Report) tax exemption is "apt to be an inflexible form of subsidy which may easily lose its relationship to need; and will certainly strengthen the barrier of discrimination between the population in low-rental houses and other sections of the community." (p. 196)
- xiii. Rather, we believe that something along the lines of our proposed formula more nearly meets the realities and needs of our Canadian situation. While it definitely proposes that low-rent housing projects should bear their proportionate share of the costs of local

government services and administration, it is so conceived as not to take advantage of the better housing accommodation which subsidized low-rent housing would offer to low-income families. The formula would not impose on the management of these projects through direct taxation, or on the tenant occupants through indirect taxation, the full assessment value which, normally, residential property measured solely by its capital costs, pays into municipal treasuries. In effect, the municipal tax revenue from these projects would work out at, and be comparable to, the average level prevailing in the municipality for non-subsidized rental property in the same rent ranges.

6. Technological Economies

There remains the matter of utilizing in any low-rent housing project the best technological experience available aimed at rationalizing construction technique and the use of low-cost but acceptable building materials.

We are persuaded that there are effective economies to be gained by utilizing certain materials now available and by a better organization of the man-power on the job and in a rational and steady flow of building materials to the site.

In this connection we urge the Federal Government to employ a more comprehensive and more imaginative policy with respect to housing materials research and construction. Such a policy might include the Building of experimental housing in selected communities throughout the country and, conceivably, the financing of privately-managed construction companies organized for the special purpose of large-scale low-cost housing construction.

7. Housing loans to families of limited means

In addition to the foregoing, we strongly recommend that the existing National Housing Act be amended ^{if necessary} in order to provide more liberal lending facilities with a view to encouraging credit-worthy families of limited means to own their own homes. To this end, we suggest:

a) That the percentage of housing loans guaranteed to the lending institutions by the Central Mortgage and Housing Corporation be established as follows:

1. 100% for a dwelling not exceeding \$5,000. in construction costs conditional upon the applicant being credit-worthy and that he possesses a housing lot free of all encumbrances.
2. 90% of any additional amount up to \$2,000.
3. 70% of any amount in excess of \$7,000.

b) In order to finance the building of such housing while under construction, the Central Mortgage and Housing

Corporation to guarantee to the lending institution up to 25% of the total loan as from the first day actual construction is under way.

c) Interest rates to be at the rate of $3\frac{1}{2}\%$ with loans to be amortized over a period up to 25 years.

d) In order to facilitate housing loans to individual family heads who, because of age or some other disability, may not qualify as credit-worthy for long-term housing loan, we recommend that the Federal Government examine the practicability of making available a joint family loan in which, should the head of the family die, or for other reasons become unable to discharge the loan, the obligation would be assumed by the family or such person or persons signatory to the loan.

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In short, we believe that the provision of adequate shelter accommodation for low-income families throughout Canada is a national-wide social objective which transcends mere governmental responsibility. It is a long-term undertaking which should commend itself to every thoughtful citizen. Perhaps more than any other single social goal it is the tangible expression of our faith that democracy in action is superior to any other form of community or state organization.

To achieve its end we need a concerted and cooperative effort participated in by all those concerned in one way or another with the financing, management and construction of low-rent housing. By the tempering of the profit motive and with a strong recognition that herein lies a field of common endeavour through which we can make the Canadian Way of Life a more meaningful experience to every citizen, we believe the present emergency can be rapidly resolved and the way cleared for a consistent and continuing policy of adequate housing for all wage groups in the years ahead.

The responsibility for initiating such a program belongs to the Federal Government and does not end until every Canadian family is properly and adequately housed.
